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May 1964

PROGRAM FOR GROWTH

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BY **NORMAN M. CLAPP**, ADMINISTRATOR

RURAL ELECTRIFICATION ADMINISTRATION
U. S. DEPARTMENT OF AGRICULTURE

**Remarks of Norman M. Clapp, Administrator,
Rural Electrification Administration,
before the 1963 Regional Meetings of the
National Rural Electric Cooperative
Association.**

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RURAL ELECTRIFICATION ADMINISTRATION
WASHINGTON, D. C.
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A Program for Growth

It was approximately three years ago, on September 22, 1960, at Billings, Montana, when President Kennedy, then a candidate for the Presidency of the United States, assured the people of rural America that if elected he would (and I quote the President's words) "restore REA to its former role of preeminence, freeing it from constant concern over political interference, higher rates of interest and budgetary starvation and enabling that remarkable American institution to get on with its work of providing low-cost electricity and telephones for every American farm family."

This commitment to the American people, since President Kennedy's election, has become the mandate for rural electrification under his Administration.

For nearly three years now following his inauguration in January of 1961, the Department of Agriculture and the Rural Electrification Administration have been engaged in the challenging task of translating these words into action.

Political Cloud Dispelled

The cloud of political interference which had hung over the loan authority of the rural electrification Administrator under the previous Administration was clearly and emphatically dispelled by Secretary Freeman in one of his first official announcements of policy as Secretary of Agriculture under the new Administration. The controversial loan for a much needed generating plant for the cooperative electric systems in southern Indiana, which had been blocked through high level political intervention under the previous Administration, was approved in June of 1961. It was not only the largest single generation and transmission loan ever made by REA, it was among the first substantial fruits of the New Frontier.

Interest Rate Badgering Ends

It was made crystal clear that this Administration would not be badgering REA borrowers to accept a higher interest rate. The present 2 percent interest rate on REA financing is admittedly a more favorable rate than would otherwise be available to the rural electric systems of this Nation. But this favorable rate is still a necessary equalizer to enable rural systems to overcome other inescapable higher costs of rural service. It is recognized that this rate in the present state of the public money market and under present Federal fiscal conditions represents some cost to the Government. I am sure we all look forward to the time when the need for such an equalizer in rural electrification will

diminish and disappear. But that day is not here yet.

To bring the dawn of that day will take sustained effort in further building the potential economic strength of the rural systems. To know when it is here will take careful and expert study. To be stampeded into such a decision by the freewheeling judgments of partisan propagandists or enticed into it by the blandishments of special interests would be a tragic error not only for rural America but for the entire Nation.

The theme of your regional meeting this year is "The Challenge of Growth." This Administration is firmly committed to the growth and strengthening of the electric systems which the rural people of this country built to serve themselves. We believe in them; we believe in you. We have faith in your future.

Growth takes capital. In the electric business, it takes great quantities of capital. For most rural electric cooperatives REA is still the major source of that necessary new capital.

Budget Proposals Reviewed

So immediately following President Kennedy's inauguration there began a review of the previous Administration's budget proposals for fiscal year 1962 to determine if they were equal to the task ahead. The previously recommended loan authorization of \$145 million for rural electrification loans for fiscal year 1962 was raised to \$195 million, and the Congress even added an additional contingency fund of \$50 million to make a total of \$245 million available for rural electrification loans in fiscal year 1962.

For fiscal year '63 President Kennedy requested the Congress to authorize \$400 million for rural electrification loans, the largest amount ever requested by a President and approved by Congress in the history of the REA electric program. In the budget for this present fiscal year, 1964, President Kennedy has recommended an authorization of \$425 million, another record-breaking request in the history of the program.

These are the deeds which are translating into action the words spoken three years ago at Billings, Montana, and enabling all of us to get on with the work of providing low-cost electricity for every American farm family and for rural consumers generally.



On no front has meeting the problems of growth been more challenging than in the field of power supply. Rural electric systems financed by REA still get 38 percent of their power from the commercial power companies; 39 percent comes from various Federal sources such as TVA, Bureau of Reclamation, Bonneville Power Administration, Southwestern Power Administration, and Southeastern Power Administration. A small percentage comes from public power districts, public utility districts and

municipally owned systems. Only between 16 and 17 percent of their needs are supplied from REA-financed generation. Yet the REA generation and transmission program and the ready availability of REA financing for such purposes is vitally important not only to assist in meeting the rapidly growing needs of the rural systems for more power but also in providing an available escape for the rural systems from unnecessarily high power costs and restrictive power contracts.

From January 1961 to the close of this past fiscal year on June 30, 1963, a span of 30 months, REA under this Administration has made loans totaling more than \$384 million for generation and transmission purposes including loans to 37 power-type borrowers. This is more than three times greater than the generation and transmission loans, totaling \$111 million, made in the last 30 months of the previous Administration. Investment of these funds provided in the generation and transmission loans made in the past 30 months of this Administration will reduce wholesale power costs to REA-financed rural electric systems by \$64,196,000 during the first 10 years of plant operation.

Perhaps even more far-reaching, this aggressive program backed by the Kennedy Administration has enhanced the bargaining power of rural electric borrowers. Already in negotiations with eight power companies, REA borrower systems have been able to secure reductions in rates totaling \$660,000 annually. There are more to come.

Demonstrated availability of REA-financing has also produced dramatic results for the rural electric systems in their constant struggle to free themselves from oppressive and restrictive power supply contracts with hostile power suppliers. It has been said that man does not live by bread alone. It can also be said that rural electric systems will not survive on a favorable power cost alone. There are times and circumstances when an otherwise reasonable wholesale power rate can and does become a Trojan horse which, if accepted, carries with it the shackles of dual rates, the menace of territorial invasion and all the other possibilities of damage which a hostile power supplier can inflict upon a wholly dependent customer. It was in clear recognition of this fact that REA adopted the third criterion for generation and transmission loans.

The third criterion served notice that REA loans for generation and transmission will be made where they are found necessary to protect the security and effectiveness of REA-financed rural electric systems.

The work of providing every American farm family and every rural resident with low-cost electric service depends upon the security and effectiveness of the rural electric systems which have brought service to rural areas when no one else would.

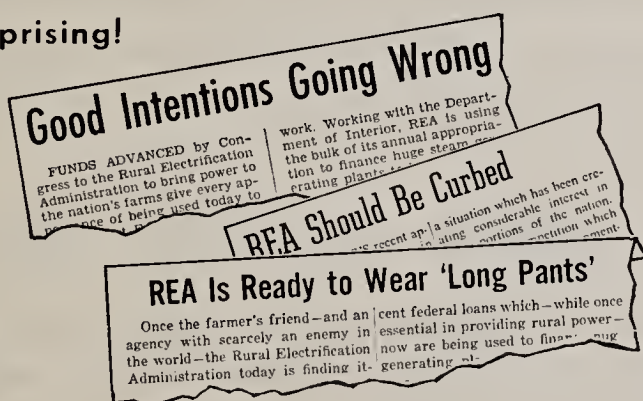
Progress in Eliminating Dual Rates

I am proud to report that we are making substantial progress in eliminating dual rates and restrictive provisions in wholesale power contracts.

In 1961, 19 power companies in 189 power supply arrangements with REA-financed rural electric systems were requiring some form of dual rate restrictions on the resale of their power in cooperative service territory. Under this administration we have refused to approve dual rate arrangements as contracts have come up for renewal. As a result, such restrictions have been dropped or are being dropped by eight companies, serving approximately 65 borrowers. We are going to keep at it until we eliminate these restrictions for the rest.

All this is involved in the work of providing electricity at the lowest possible cost for rural consumers. Also involved are the steps that have been taken to win a greater measure of territorial protection for the rural electric systems of this country, the growing movement for rural area development in which your cooperatives as well as REA are playing a highly significant role, and the development of sounder operations, better management and greater member service through your cooperative organizations.

Not Surprising!



It is not surprising that our efforts to get on with the work of rural electrification have prompted an attack on REA and the rural electric cooperatives of unprecedented fury. This, unfortu-

nately, is one of the challenges of growth. Selfish interests which previously were content to wait for the rural electric cooperatives to die on the vine are suddenly alarmed that there is a new determination to make it possible for these systems to survive as a permanent and constructive yardstick in an essentially monopolistic industry.

It is not that these rural systems threaten either the existence or the well being of the commercial power companies. Great as their accomplishments have been, it is a greatness measured more against the handicaps overcome, rather than by comparison with the size or resources of the commercial power companies. As controversial as the REA G&T program has become, REA-financed generation still is less than one percent of the total generating capacity of the industry. The real cause for the fury of the attack being directed against the rural electrification program now is a realization that under a revitalized REA program the rural electric cooperative systems can survive and will not eventually succumb to the high cost of rural operation, to be taken over and assimilated piece by piece as the convenience of the commercial power companies dictates.

5 Million Consumers Served

Yet in spite of the intensity of this attack we have moved forward. The REA-financed rural systems have grown to meet the needs of the growing numbers of people moving into their territories each year and the growing use of electricity by people who have it available.

Although there is a steady decrease in the number of farms as the technological revolution in agriculture works its changes, producing an increasing number of idle farm services in many areas, other people are moving into rural areas resulting in a net increase of rural consumers served by REA-financed systems of approximately 100,000 each year. REA-financed rural electric systems now serve about 5.1 million consumers.

The average use of electricity for farm and residential purposes continues to increase. It now averages approximately 400 kilowatt-hours per month as compared to 182 kilowatt-hours per month 10 years ago.

With the coming of electricity to rural areas has come also the possibility of business and industrial development in rural areas.

By encouraging this development we build into these areas greater opportunities for people. It means more jobs -- jobs that help counter the present trend where often our most promising young people must move away to find employment, and where there is no way to take up the slack from the continuing decline in employment on the farms. It means, too, that we give these areas a chance to make better use of local resources, to improve community facilities, and to increase income on Main Street. There is a growing awareness among our rural electric leaders of the good business logic of building system diversity and power sales by helping foster this development. And more impor-

tant, REA borrowers are doing something about it.

We in REA have sought to measure the increased development now taking place in which our borrowers have played an active role. We are finding that they are now active in community development work which is resulting in tens of thousands of new jobs within their service areas. In seeking to come up with a nationwide figure, we generally have found our estimates prove far too conservative when through closer examination we recheck our figures against what is being done state by state and cooperative by cooperative.

A good example of this, worthy of mention, is in the State of Oklahoma. The responses to an earlier mail survey from Oklahoma borrowers indicated that 9 RAD projects were launched with the help of electric cooperatives. These 9 projects created 850 new jobs and the estimated total investment was \$9,022,000. However, a recent resurvey of Oklahoma conducted through direct contacts with our borrowers indicates the earlier estimates were far too conservative. We found that the rural electric cooperatives have had a hand in the establishment of 83 new industrial and commercial enterprises and in expanding 17 existing ones since July 1961. The 100 new and expanded projects created 2,990 jobs. The estimated total investment in these projects rose to \$26,000,000.

These cooperatives are demonstrating their interest in solving the basic problems which have forced so many rural people to migrate to the metropolitan

areas of the country in search of employment. Being in the electric distribution business in rural areas, the cooperatives are naturally interested in seeing their service areas grow into dynamic, vibrant places in which an ever increasing number of people can find gainful employment, where they can raise and educate their children and generally partake of a more abundant life.

The actual assistance that the cooperatives gave in Oklahoma took various forms: providing a place to hold group meetings; taking part in the discussions of basic problems; providing secretarial help; securing technical advice on specific proposals; looking for and finding available credit sources; and in some instances they helped meet local investment requirements. Let's take a look at the kind of projects which were successfully developed.

Twenty-eight of them involve agriculture and forestry products. Fifteen were classified as commercial recreation enterprises. More than half, or 57 of the projects, were either manufacturing or service-type businesses. To the almost 3,000 new direct jobs that are estimated to result when the projects are fully operational, it is usually considered safe to add an equal number of indirect jobs that will result. These new jobs are both in and out of areas designated by ARA as eligible for developmental assistance.

Approximately \$5 1/2 million of non-Federal funds were invested in 72 projects in nondesignated areas. The Small Business Administration and

REA-financed cooperatives supplied about \$200,000. And there were 28 projects within the designated ARA redevelopment areas. Only 9 of these, or about one-third, used ARA funds. In only two instances were Section 5 funds used to help finance electrical equipment and machinery.

In North Carolina, the rural electric membership corporations have helped in the development of 65 business and industrial projects in rural areas, creating almost 7,000 new jobs and injecting into the economy of those areas \$29 million of new capital, of which more than 90 percent came from non-Federal sources. There was one \$25,000 Section 5 REA loan. The balance of the financing was secured from other sources.

The Oklahoma and North Carolina stories are but two in a growing story of progress in overcoming the deficiencies in revenue and density from which the rural electric systems are building their strength for the future.

We have also made progress in the development of larger-scale generating sources and power pooling arrangements which in turn mean cheaper power for rural consumers. In North Dakota, REA is financing the largest lignite-burning plant on the North American continent now under construction by the Basin Electric Power Cooperative. This is a 200 megawatt unit which will supply the increasing power needs for an estimated 226,000 rural consumers served by 97 electric cooperatives in eight states of the Upper Missouri Basin. Using the Bur-

eau of Reclamation's 4,000 mile transmission system and getting its standby from the Bureau of Reclamation's hydro capacity, it will rank among the most economical plants financed in the history of the REA program.

In Colorado the new Colorado-Ute plant under construction at Hayden will bring to 42,000 rural consumers of the Colorado and Wyoming area the most dramatic reduction in power cost per dollar invested in the history of the REA

In Perspective

The Objective of Rural Electrification

- Parity of electric service and rates for rural people with those of urban people.

Built-In Handicaps of Rural Electrification

- Low consumer density per mile of line.
- Low revenue per mile of line.
- High cost of power.
- Lack of diverse loads.
- Pockets of poverty.
- Few large power consumers.
- Isolated systems.

Equalizers Necessary to Overcome Handicaps

- | | |
|--|---------|
| • Favorable financing | } REA |
| • Technical assistance | |
| • G. and T. authority | |
| • Nonprofit operation. | } Basic |
| • Rural areas development. | |
| • Territorial protection. | |
| • Applications of new techniques in today's electric industry to reduce costs— | |
| Large-scale generation. | |
| Pooling arrangements and Interconnections. | |

The REA Approach

- Development of self-sustaining systems through strengthening of the basic equalizers.

program. In Missouri the REA-financed cooperatives have entered into a large-scale pooling arrangement with three of the state's commercial power companies and the Southwestern Power Administration, which will materially reduce the cost of power to the rural consumers in that state. In Minnesota there has been developed a power plan by which the cooperatives expect to combine the benefits of low-cost lignite fuel in North Dakota with the transmission economies of power displacement with two power companies to produce a highly significant breakthrough in the wholesale cost of power for the cooperatives of that area.

Although REA-financed projects are being delayed in some states and defeated in one through regulatory review or court litigation, there have been significant victories in recent months. The rural cooperative systems have scored signal advances toward recognition as an accepted part of the electric industry in cases successfully concluded before regulatory commissions in Arizona, Colorado, Kentucky and Mississippi.

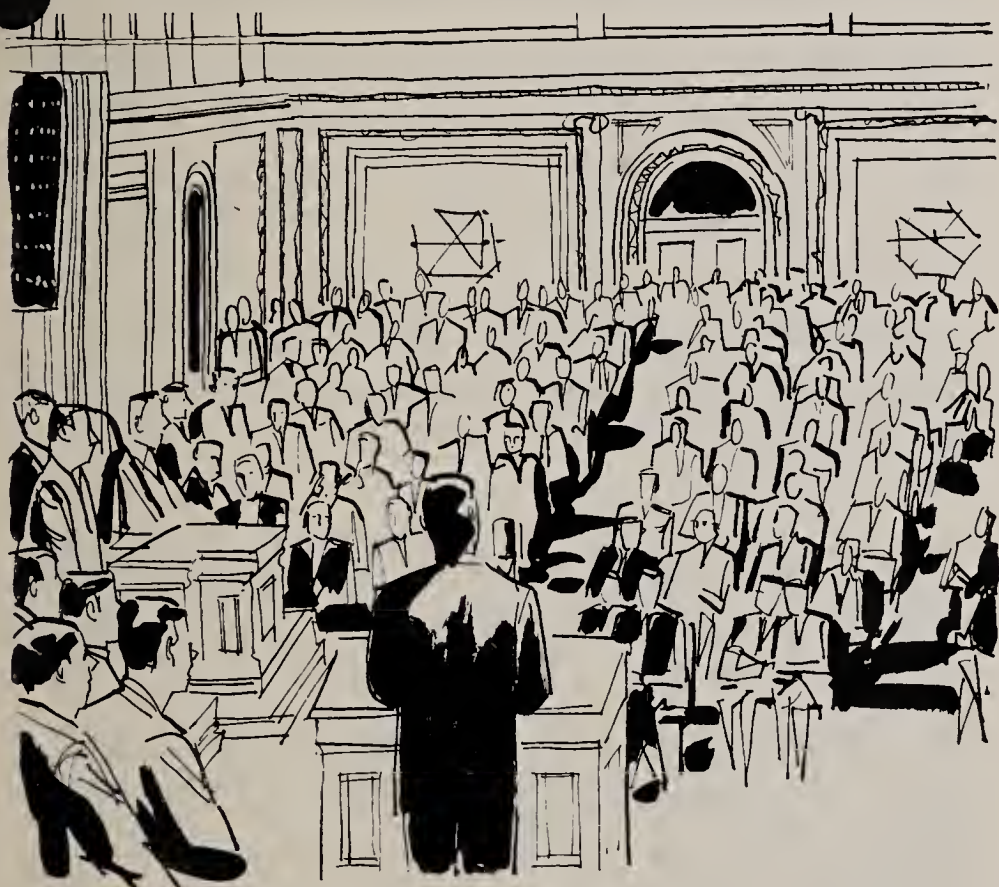
Progress is also being made in achieving recognition in the courts. Mississippi and Oklahoma decisions have upheld the cooperatives' right to continue service in rural areas which are annexed to municipalities. The Arizona, Georgia and Nevada courts have rejected power company attempts to invade cooperative service areas.

Important progress has been made toward achieving the goal of territorial integrity, but there is a great deal to be done.

Legislation Needed

Many of you who are here today will remember my warning of this crisis in rural electrification at the 1961 regional meeting. I said then -- and I repeat today -- territorial encroachment can not be met satisfactorily on a case-to-case basis. The only effective remedy was and is state legislation -- "fair play" legislation.

Your organizations have moved in several states. Although relatively few legislatures met in general session in 1962, electric cooperatives in five states sponsored territorial protection legislation. Their efforts will undoubtedly be renewed at future sessions. In the more active legislative year which has just closed, the rural electric systems in 15 states sought such legislation.



Eight states enacted laws dealing with this subject. Alaska and Nevada gave cooperatives territorial protection

through their state regulatory bodies. They required the issuance by their utility commissions of certificates of convenience and necessity on a "grandfather clause" basis which recognized existing service. Idaho amended its 1957 anti-duplication law to put more teeth in it and came to grips with the problem of municipal annexation. Iowa, for the first time, subjected electric utilities to commission regulation and extended a measure of protection to electric cooperatives with respect to duplication and municipal annexation. Nebraska made a start toward solving some of its territorial conflicts. South Carolina gave statutory recognition to the rights of electric cooperatives in annexed areas. Vermont clarified its 1957 anti-duplication law. In South Dakota the proposed legislation was so drastically amended by the Legislature that its final passage was really a legislative set-back for rural electrification.

In seven states, cooperative efforts failed to get legislation passed. This was due largely to the opposition of power company interests. In one state, the power companies took the offensive in seeking legislation which would have required the rural cooperatives to sell out to them.

I do not feel at all that the cause was lost in these seven states. The legislative effort has clarified the issues for the cooperatives' members, for the general public, and for the legislators. What was not accomplished in 1963 should be sought in 1964, in 1965. It can be achieved. "Fair play" for the cooperatives is just, it is in the public interest -- and it must prevail.

The objective of rural electrification has always been and still remains the bringing of the blessings of electricity to rural areas. That fact was demonstrated only a few weeks ago when central station electric light and power came for the first time to the people of Yaak Valley in northwestern Montana. There a rural electric cooperative, Northern Lights, Inc., penetrated 21 miles over rough terrain to rescue 30 families from decades of after-sundown darkness. One of our employees who made a survey of this picturesque wonderland reports the dawn of a new mode of living in the area. Housewives are shopping eagerly for electric ranges, irons and washers, while ranchers are looking for new tools for cutting chore time. A sawmill, by switching to electric power, is cutting operating costs while expanding to provide new jobs and finished products. Community leaders say it will add up to more income and more progress in utilizing the resources of the area.

Equalizers Still Necessary

In Yaak Valley the coal-oil lamp, the pitcher-pump and the sadirons are now becoming history. Northern Lights plans to push farther into the wilderness paradise until all remaining families -- some 40 in number -- have electric service.

On Bois Blanc Island in Lake Huron off the coast of Michigan, Presque Isle Electric Cooperative is now staking lines and next spring will run a cable from the mainland to bring central station electric service to 100 residences for the first time. Throughout the

country, steps are being taken to reach the presently unserved and to serve those who choose to locate their homes and their businesses in rural areas.

As the people of Yaak Valley and Bois Blanc Island begin 20th Century living, people all over rural America -- on their farms, in their homes and in their shops -- are striving to employ the rapid advancements in technology that are providing new and better ways of working and living. Thus, the objective of rural electrification continues to be to provide these blessings in a measure comparable to those enjoyed by people living in the city. It is to make possible the same high standards of living comfort and convenience in the country that electricity affords in the city. It is to make possible economic opportunity in the rural areas comparable with the opportunity for economic growth in urban areas to the extent that electric service can do so. The objective of rural electrification, therefore, is really a parity of electric service and rates for rural people with those of city people.



As we look forward to the capital requirements of the rural electric systems, it is clearly apparent that we cannot raise the interest rates on REA loans without jeopardizing the objectives of

rural electrification unless we first narrow the present gap of consumer density and revenue now so wide between the REA-financed systems and the urban based utility systems.

Even today the REA-financed systems nationwide serve an average of only 3.3 consumers per mile of line compared with the 33 consumers which the Class A and B commercial utilities average on each mile of their lines. The gross revenue of the REA-financed rural systems is only \$414 per year per mile of line. The gross revenue of Class A and B commercial utilities is \$6,580 per year per mile of their line.

To offset the inescapable higher costs of rural service resulting from this relatively low density of consumers compounded by a lack of large power users and a lack of diversity in power load, all of which are extremely important in securing the maximum use of an expensive type of capital plant, the REA program has provided certain necessary equalizers.

One important equalizer has been supplied by the rural consumers themselves in the nonprofit operation of their systems through cooperative-type organizations. The capital investment which rural consumers are contributing in growing amounts toward the increasing equity they are building in their cooperatively owned systems is a loan they make which bears no interest, not even 2 percent. At the present time that capital loan of the rural people themselves amounts to over three-quarters of a billion dollars. It represents an equity in their systems of approximately 22 percent. Its only return to the con-

sumer while it is being used by the co-operative is a return in service at cost.

The two great equalizers provided by the Federal Government through the REA program have been REA technical assistance and long-term capital available at a favorable interest rate. Even the 2 percent interest rate of REA loans does not fully equalize the impact of the interest cost when compared to that borne by the consumers of commercial power companies. Because of lower revenues per dollar of investment, the rural consumer on REA-financed systems pays an average of 7.4 percent of his light bill for interest, while the consumer served by the commercial power company, with its higher revenue base, pays an average of only 6.2 percent of his light bill for interest on the company's indebtedness.

These equalizers have been indispensable in the basic development of the rural electrification program in America. Only to the extent that these rural systems can strengthen their own economic base and develop their full operating potential can the need for these equalizers in the future be diminished or eventually eliminated.

To do this you must have territorial protection, for only through the retention of the growing portions of your service territories can you be expected to close the gap of density and revenue which now requires the REA equalizers. You must have the right to serve the larger loads as well as the small loads in your service territories for the same reason.

You must promote economic development of the rural areas you serve, for this too serves to close the gap of density and revenue which constitutes the basic handicap of rural service.

You must develop the best possible power supply arrangements providing power sources that are not only adequate and economical, but also conducive to the security and effectiveness of your system operations.

You must seek constant improvement of your management, your operations, and your member services.



The REA program under this Administration is directed toward the full assistance of your efforts to accomplish these purposes. This is why we have suggested a Model Territorial Integrity Act for your consideration in your states. This is why we are determined to eliminate restrictive dual rate provisions in your wholesale power contracts. This is why we are assisting you through our rural area development activities in the economic development of your service territories. This is why we have recently established a new Power Supply Survey unit in the Administrator's office to assist borrowers in finding the most effective power supply arrangements through early study, long range planning, and more active negotiation. This is why

we have launched our Five-Star Member Service Program to assist you in reappraising your organizations, their management and operations, and member services.

Building Stronger Rural Systems

This is the course on which we are embarked. This is the challenge of growth. For those who clamor for a change in the interest rate, a curtailment of Federal assistance for rural electrification in this country, this is a challenge to support us in building stronger rural systems so that such equalizers may eventually be eliminated without destroying the basic values of this program.

To follow the other course, to leave the rural systems open to creeping dismemberment as portions of their service territories become attractive to the selfish designs of other utilities, to deny them the tools needed for the economic development of their service territories, to force them to depend upon high cost wholesale power as captives of hostile power suppliers will not only perpetuate the need for Federal equalizers and assistance, but intensify it.

All this we must understand and the American public must understand if, as President Kennedy said three years ago, we are to "get on with our work" of providing lower cost electricity in rural America.

MAY 1964

☆ U. S. GOVERNMENT PRINTING OFFICE : 1964 O - 700-462 (28)